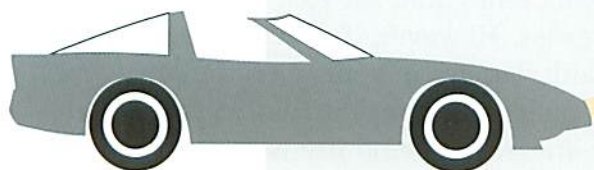




## LATTIMORE BLACK MORGAN & CAIN, PC

5250 Virginia Way  
4th Floor  
Brentwood, Tennessee 37027  
(615) 377-4600 • Fax: (615) 377-6688  
www.lbmc.com • E-mail: dealer@lbmc.com



# HEADLIGHTS

A PUBLICATION  
OF THE AutoCPAGroup

WWW.AUTOCPA.COM  
1-800-4AUTOCPA

## TO MAKE MORE MONEY, PLAN, PLAN, PLAN

**W**hen was the last time you prepared a forecast for your dealership? If you have not done so in a while, your dealership may be running you—instead of you running your dealership—and most likely you are not thinking strategically. You might already be very successful, but could you be more successful?

To prepare a good forecast, you have to start with good, clean, accurate financial information. If you do not have good records to start with, it will be very difficult to measure the past and forecast the future. One of the best ways to get good, clean records is to have descriptive and meaningful accounts. If you are a dealer group, it is also helpful to use standardized accounts across all franchises. While this is a significant undertaking, it will help ensure consistency in your information, especially if you don't have a centralized office.

Once you know you have good information, you should start planning the future of your business.



**Barton Haag,  
CPA  
Albin, Randall &  
Bennett**

What are you doing well? What could you do better? How can you maximize the opportunities you have?

The planning phase is a great time to review front- and back-end processes, your financial reporting and other aspects of your business. Questions you might consider while developing your short-term strategy include the following:

- ✓ Are you tracking all “ups”?
- ✓ How are you managing your used-vehicle inventory?
- ✓ Is your Web site generating the volume it should?
- ✓ Have you set up telephone goals for your salespeople?
- ✓ Is your parts department managed effectively?

*please turn the page* ➤

### SUMMER 2010

**MANUFACTURER  
WORKING CAPITAL  
STANDARDS**

**FINANCE  
DEPARTMENT  
PROFITABILITY**

- ✓ Are your parts department employees actively working to special order parts?
- ✓ Is your accounting office reporting to you in a timely manner?



- ✓ How much is your finance and insurance gross per retail unit?

At the same time, you should consider your mid- and long-term strategies. You might answer the following questions during this process:

- ✓ Is it time to acquire a competitor or new franchise?
- ✓ Is it time to start transferring ownership to your children or your management team?
- ✓ Should you consider moving to a better location or upgrading your facilities?
- ✓ How are you going to retain and attract the best people?

- ✓ What positions do you need to fill to meet your long-term goals?

Once you have put the strategy in place, it is time to put numbers to it. For existing business lines, we generally recommend you start by budgeting expenses to the gross you have, not the gross you hope to achieve. In other words, assume you are not going to make any more gross income than you are making today, and set your expense structure to that gross. However, if your strategy includes significant changes in your operation or if you know of a significant event that will transform your business, you could use your strategy to forecast gross.

If you are developing new lines of business, do your homework: Identify the opportunity and define the expense structure. You need a good road map to measure investment success or failure.

Forecasts are a great way to begin thinking strategically about your business, to measure your success and to hold employees accountable. Contact your AutoCPA Group member today for assistance. ↵

## MANUFACTURER WORKING CAPITAL STANDARDS

**Carl Woodward, CPA**  
**Woodward & Associates**

**N**et working capital (WC) is defined as total current assets less total current liabilities. Rather than net WC, some manufacturers, accountants and others call this simply WC. The total current assets and total current liabilities are shown on the manufacturers' dealership-prepared monthly financial statements. Manufacturers expect their new-vehicle dealers to meet their minimum WC standards so that dealers are adequately capitalized and can operate effectively. Sometimes a dealer must make adjustments to the dealership's accounting records or the financial statement input sheet to more accurately determine the "real" WC and state it correctly on the dealership-prepared monthly financial statement.

The calculated WC should include the last-in, first-out (LIFO) reserve, or other reserves on your books

that the manufacturer allows to be added to the WC. These reserves might be hidden in an inventory account or even shown as a liability, which can cause your WC to be understated.

Sometimes, assets included in the long-term category should be reclassified to the short-term asset category. This could include some receivables currently classified as long-term receivables, not expected to be paid within the next 12 months.

If circumstances change and a dealer expects these liabilities paid within the next 12 months, they should be reclassified as short-term current receivables. Sometimes liabilities not due to be paid in the next 12 months are incorrectly shown as current liabilities when they are, in fact, long-term liabilities.

General Motors (GM), as we understand it, has its own way of determining WC, which does not follow generally accepted accounting principles. GM begins by taking the total current assets and adds back the reported LIFO reserve, if any, and then subtracts all liabilities except for mortgages payable—real estate. In other words, it also subtracts long-term liabilities, excluding real estate mortgages. No other manufacturer (that we know of) does this. However, GM does allow the dealer to reduce its long-term liabilities, which would increase WC under GM's method for debt-owed-to-owners, referred to by GM as qualified long-term debt, up to an amount that is the lesser of the amount owed to the owners or 50% of the WC standard assigned by GM.

If you show less actual WC than the GM (or other manufacturers') WC standard, you might obtain that manufacturer's WC standard worksheet. Using its worksheet and inserting recent asset balances, sales, cost of sales, expenses, etc., you can recompute what that manufacturer's WC standard would be. It could be that the revised manufacturer's WC



standard is less than it was before. You should check to see that the manufacturer's WC standard, typically shown on page 1 of the monthly financial statement (line 45 for GM), is current by having someone verify that the most recent WC standard is being used. If you have any questions regarding the computing of the working capital for GM or any other franchise, please contact your local AutoCPA Group member for assistance. ↩

## FINANCE DEPARTMENT PROFITABILITY

**A** proactive and profitable finance department is a vital part of today's dealership. As competition continues to drive down the front-end grosses of the deal, an aggressive finance department allows the sales managers to make short deals that increase the units in operation for the future benefit of the dealership. It is important that finance managers understand the degree to which their involvement can affect the current customer satisfaction index and future customer retention.

The finance department's goal should be at least \$1,000 gross per retail unit sold. More importantly, the department should achieve at least \$650 per retail unit after chargebacks and finance compensation. The measurement of the net number is key,



**Aaron Winiarz, CPA**

because that will determine the profitability of the department.

In addition to maximizing the allowable finance reserve, many other products can be sold to achieve this goal. To add to the productivity of the department, the finance manager's objective should be to sell at least two additional products per unit sold. These products vary by dealership but include extended service contracts, gap insurance policies, etch protection programs, paint and fabric protection, antitheft devices and biweekly payment programs. The biweekly payment programs offer both a potential interest savings and a convenience for customers who are not likely to miss an installment in this era of electronic payments.

*please turn the page* ↩

## FINANCE DEPARTMENT PROFITABILITY

(continued from page 3)

Many finance departments also sell accessories for vehicles. This requires a close working relationship with the parts department and a need to display the equipment. Programs that show what the various accessories would look like on the customer's vehicle can aid the sale. This would also help to increase the profitability of the department.

With the potential of additional regulation that could reduce finance reserve income, aggressive sale of these additional products can help to replace some of this lost income. If you have any questions, please contact your local AutoCPAGroup member.

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5250 Virginia Way  
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Brentwood, Tennessee 37027